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The last six months of economic issues have proven that even the most sacred of our institutions can have problems if they neglect to run their businesses properly. The stock market swings, the bailout of banks and the auto industry, and the lack of stability in the labor force should give all business owners or managers of physician practices serious nightmares.

Take a moment to count the number of physician colleagues or practices that you thought were on solid financial ground but which, in the last 12 months, have opted to change their business models. You probably know at least five physician practices or organizations that have changed the way they operate, left private practice or had their contracts renegotiated. The landscape is indeed changing.

That's why, in this issue of *VitalSigns*, we discuss some ways to cope: taking the right steps to riding out the storm, keeping better track of your financials, getting the most from the hospital-physician employment model, and boosting physician efficiency and productivity. These may be challenging times for the health care industry, but that doesn't mean you can't navigate the choppy seas and find your way to calmer waters.

The economy and your practice

4 steps to riding out the storm

We have a new president with a new plan for controlling and delivering health care that has yet to be implemented; competition for new physicians is growing; and our patients are paying more for their care than ever before. Do you have a plan?

You may have a budget, realistic or not, or you may have voiced concerns to staff or partners. But we are currently navigating in stormy seas, so your first order as captain of the ship should be to "batten down the hatches!" Here are four steps to riding out the storm.

1. Analyze current plans

First, review the current business plan or vision for the practice. Does it make sense? Even if you do not have a formal business plan or documented vision, every business owner and manager has a vision for the practice in their mind. Does it still make sense for 2009?

If your plan is to grow the business to survive the problem, stop. In this economic turmoil, very few practices will be able to grow their way out of the mess. Some will, but most will not. Review the mission of the practice to see whether it makes sense and is updated. When making difficult decisions, the mission will be critical in helping to make the right choice.

2. Do a diagnostic review

Second, perform a diagnostic review of all areas of the practice. The diagnostic review is looking for areas where the practice is losing money or opportunities. Review the following areas:

- Billing and collections,
- Patient registration,
- Coding,
- Fee schedules,
- Payment posting,
- Denial follow-up,
- Insurance contracting,
- Financial controls and expense review,
- Staff levels and competency, and
- Operations.

Even if the opportunity seems obvious, it is worth reviewing the practice as a whole to be sure that in fixing the obvious you have not overlooked a major area. This is similar to reviewing multiple organ systems of a patient before declaring a final diagnosis. It is more than likely that the practice is suffering from multiple system failure and not just a simple process problem.

A practice in financial distress did not get into trouble overnight; it was a slow process over time. Look for small incremental gains, not proverbial home runs. One to two percent gains over a number of areas add up to significant opportunities.

A diagnostic survey reviews each of the areas against physician practice benchmarks. Benchmarking information can be obtained from professional societies, consultants, the Medical Group Management Association and other professional organizations. In addition to benchmarking, survey each aspect of the work and patient flow. Compare the policies and procedures against what is actually occurring.



Also, don't allow a hire of a new employee or replacement of an employee until that position and duties have been thoroughly reviewed. Be relentless in asking, "Do we need the position?" Employee staffing decisions may be very emotional and often difficult to make, but staffing reductions are sometimes critical to practice survival. Excuses are common when discussing staff; physicians and managers will always have reasons why every position is important.

3. Perform a financial review

Third, the physician partners must perform and understand a detailed review of the financial statements and cash status. If necessary, a cash flow projection for the next three months, six months and 12 months should be developed.

In these reviews, look to define the nature and extent of the problem, pinpoint potential areas of concern, and gain an understanding of whether and how the practice can be turned around. Additionally, physicians need to assess their ability to improve the financial results of the practice. Issues of medical management, physician compensation, productivity and support staffing need to be addressed.

Revenue issues can be devastating to a practice. Most often these are traced to physician productivity or billing/collection problems. Review the compensation models to determine whether they're designed to promote productivity and financial responsibility. Implement changes to enhance productivity. Occasionally, midlevel providers may not be productive enough to justify their positions. Review honestly and openly clinical productivity — changes may need to be made.

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4. Plan to make cuts

Fourth, set a goal to cut expenses by a specific dollar amount. All staff must be involved and know the goal. Expense issues typically show up as cash flow issues; however, a simple review of patient volume, charges, collections and accounts receivable quickly can point to expense issues. Categorize your expense issues in one of three ways:

1. Direct expenses, such as rent,
2. Variable expenses, such as supplies, and
3. Employee expenses, such as salaries and benefits.

Some practice expenses, such as rent and depreciation, cannot be changed. Difficult decisions in expense management must often be made but, in tough times, the physician partners must remain focused on the goal of reducing expenses. There are a number of ways to do so, including:

Lowering your lease expenses by renegotiating current agreements. If rent must be reduced you can move or reduce your workspace.

Reducing telecommunications expenses. Examine your monthly phone bills (local and long distance), pager expenses and cellular phone expenses and consider renegotiating with vendors or switching vendors.

Re-evaluating support staff positions. Determine the skills needed for each position and question whether a position can be filled at a lower cost wage rate.

Reviewing your information system costs. Are you paying support for software or hardware that's obsolete? Could an upgrade save you money — or can you hold off a while longer?

Cutting unnecessary expenses is a good way of increasing revenue. Just make sure that, whatever expense reductions are made, they do not adversely affect productivity.

Last, develop a detailed plan with dates, assignment of responsibilities and expected results. This plan will be the road map for achieving the goals. Uncertain business climates require that successful practices return to the basics of blocking and tackling. Re-evaluate all significant purchases — even if deposits have been made or projects have started — until some state of certainty in the health care industry is known. Consider any investments in growth a risk until proven otherwise.

Accomplishing the goal

As it historically has, the economic climate for physicians and their practices will eventually get better. In the meantime, your goal is to outperform the competition in these lean times and survive to enjoy the fruits of your work in better ones.

Key indicators: The pulse of a practice

You can watch the results of the fluctuating stock market on a daily (or hourly) basis. But how can you tell if your practice is having problems before those problems get out of hand — especially if you don't get financial statements until six weeks after the month is over? The answer is key indicators.

Well-run practices have a set of data points called "key indicators" that partner physicians track on a regular basis. This information is often conveyed in reports that go by a number of titles, including "key indicator reports," "flash reports," or "business markers." What the reports all have in common is a concise measurement of the health of the practice at a given point in time — ideally, early enough to be proactive in detecting and resolving problems.

Measuring the standard indices

Key indicator reports should measure a few standard indices of practice status. These include:

- Year-to-date and month-to-date charges and collections,
- Previous years' comparative year-to-date and month-to-date charges and collections for the time period,
- Collection percentage by financial class (commercial, Medicare, Medicaid, HMO, workers' compensation) cumulative for the year,
- Volume of patients: new and current,
- Charges/collections/adjustments by physician, and
- Accounts receivable aging, including days in accounts receivable.

These are the standard indices that all practices should track on an at least monthly basis (preferably biweekly). Key indicator reports may have additional information, such as coding indicators by doctor or personnel costs as a percentage of revenue, and any other information that the physician partners feel is important.

Reviewing the major sections

Different sections of the report will tell you different things about your practice. Examples of major sections of the report include:

The production and charges section. It explains how much cash the doctors are generating through charges and collections.

The payor analysis section. This part tells the practice where the revenue comes from and who the most important financial customers are (commonly known as "the payor mix").

The case profile section. Here you can gain a better understanding of whether your practice is growing, remaining stagnant or in full retreat. The total number of cases is an indicator of productivity and the number of new cases is a sign of growth.

The case profile and the production and charges section should be viewed together to determine why revenue may be up or down. If total cases are up, but charges are down, investigate in depth what type of case you're seeing.

For example, you could be very busy but seeing a less financially productive level of patients (not in terms of insurance, but in terms of complexity of case). Also look at the payor analysis section to determine whether your payor mix has changed.

The physician profile section. This allows physicians to compare productivity and practice type. In addition, physicians can compare charges to cash collection realization to see whether, within the practice, there's payor variation.

The accounts receivable section. Usually the final section, this one monitors the effectiveness of the billing and collection process. The "days in AR" calculation allows you to monitor the number of days from patient billing to cash collection. This average varies from specialty to specialty, but it's usually one to one-and-a-half months. It should never be greater than two months.

Putting it to good use

The key indicator report must be developed from information easily obtained in the practice. All of the data outlined above is easily obtained from any standard practice billing information system or a third-party billing company.

Generally, the practice manager is instructed to set up a spreadsheet on any commercially available software, after which the practice must set an expectation that the report be prepared, without fail, on a monthly basis at the very least. A practice manager with average database skills can chart these sections or add physician coding profiles very easily.

It's vital to keep the report concise and one page or two pages at the most. Reports that are too lengthy are less likely to be compiled regularly and read — and more likely to be inaccurate.

Ultimately, the key indicator report is an adjunct to the practice financial statements. It helps to guide the physician partners on why good or bad things are occurring in the practice. To ensure all partners understand the health of the practice, the monthly (or quarterly) partner meeting should have an agenda item to discuss the report.

Any variations identified by reviewing the key indicator report can then be followed up in depth through specific problem area analysis, such as billing and collections reviews (if the accounts receivable grow excessively) or referral pattern examination (if the number of new cases begins to fall).

Managing better

In short, key indicators are the pulse of your practice. Physicians who become adept at following this data will manage better. After all, the art of management is knowing where to look to find problems and then putting checks and balances in place to fix those issues or enhance opportunities.

Moreover, in these troubled times effective managers cannot wait for the financial statements to come out. Doing so may work just fine in good financial times but, in an uncertain economy, you need accurate information on a more frequent basis.

Building a successful hospital-physician employment model

Hospitals and health systems are employing physicians at an increased rate. Why? The economic impact of rising costs of running practices, an inability to recruit young physicians into private practice, the decrease in reimbursement and the challenges of running a private business all have physicians looking for alternatives to private practice.

Private practice physicians have traditionally had exit strategies such as the recruitment of younger physicians who would eventually become partners, providing an exit strategy for older physicians. This strategy is no longer available in many specialties, as shortages of physicians are causing higher starting salaries than many private practices can afford to pay new physicians. Moreover, changes in recruitment assistance rules have made it more difficult for hospitals to provide financial assistance to private physician groups in recruiting new physicians.

No clear-cut plan

Faced with few choices, private practice physicians are turning to their local hospitals for help. The local hospital systems are weighing the cost of recruiting new physicians to fulfill their community missions vs. hiring local physicians already in practices. Many physicians who are being hired by hospitals are physicians who are already on the hospital staff and the hospital is using this strategy as a defensive mechanism.

Unfortunately, many hospitals and health systems begin the employment process without a clear-cut plan or strategy. The initial hiring of five to 10 physicians quickly becomes a group of 25 to 50 physicians. And the hospital typically doesn't build an adequate infrastructure to support a large physician organization.

9 winning characteristics

Conversely, successful hospital-owned physician practices tend to have nine winning characteristics:

1. They do their homework. Better practices analyze the various models for physician contracting before implementing the appropriate model for the hospital or health system. This analysis should include the resources available at the hospital and the impact of the model/strategy on current hospital-physician relations and development plans.

2. They put it in writing. Before hiring any physicians, a detailed business plan is written (or revised) detailing the expected costs, physician salaries, productivity measures, cash flow, expected referrals and staffing necessary to support referrals and capital costs.

3. They build the infrastructure. The hospital has a support model in place, including billing and collection systems, employee benefits and individual physician financial reporting systems.

to adjust compensation if productivity levels aren't met.

7. They start new hires off on the right foot. Physician start dates are designed to coincide with appropriate insurance company credentialing and the ability to begin billing for professional services.

8. They know everyone's role. Organizational charts that have physician reporting relationships clearly delineated are in place.



4. They run the numbers. The hospital finance department has determined monthly financial reporting requirements and cash needs. Also, the billing company or software has the ability to report the required information to the finance department in a timely and accurate manner. Additionally, all hospital financial policies for cash collections, discounts, and cash management are appropriate for the physician practice.

5. They have effective leadership. The hospital has managers in place or can recruit managers who have experience managing and working with physician practices.

6. They account for productivity. The physician employment contracts have incentives that are measurable and achievable and can be reported to the physicians. The contracts have the ability

9. They take a disciplined approach. Discipline in management and physician relations to achieve goals and business plans must be instilled in the culture of the physician employment model. If the discipline isn't in the organization from the beginning, the hospital-physician employment model could lead to significant losses per physician.

The rules of the relationship

As long as the rules of the relationship are clear from the beginning, physician employment by hospitals and health systems can be a positive experience for all parties involved. But if this employment model is used only to "rescue" practices or has no business discipline or infrastructure, it will not likely be successful.

Difficult times call for increasing physician efficiency and productivity

In difficult economic times, increasing top-line revenue is a very important strategy. However, investing in risky new ventures, offices or equipment typically is not. How can you increase revenue quickly in a physician practice without investing heavily in time or fixed costs? By increasing physician efficiency and productivity.

But how exactly do you do that? Well, you can start by reviewing your patient schedule and asking a few questions. Does the physician run on time? Are all the slots filled with the appropriate patient type? Are the support personnel scheduled appropriately to match the physician schedule? Let's take a closer look.

5 smart moves

To get started, review all opportunities to increase revenue without increasing a physician's hours or changing his or her clinical practice style. Here are five smart moves to consider:

1. Schedule the patient 10 to 15 minutes before the provider schedule time.

Scheduling this pre-schedule time will allow the patient to be registered and roomed with the nurse before the provider start time. The provider will, in turn, start the session on time and keep on track for the remainder of the

day, allowing patients to be scheduled more appropriately with minimal wait times.

This may seem obvious; however, in a practice that runs a compact schedule, any patient delay for paperwork, running late or other issues can cause a large impact on the physician schedule and patient turnover. If your provider has a habit of starting the session late because of poor personal scheduling habits, determine the actual physician start time per session and schedule your patients accordingly 15 minutes before the actual start.

2. Know your provider's cancellation rate.

Measure your cancellation rate by physician and set a specific goal to reduce the cancellations based on the reason for the cancellations. Then publish the cancellation rate and the goal for staff so that they can assist in decreasing the rate.



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Knowing the average daily cancellation rate will better allow double booking and wave scheduling to accommodate any gaps in the schedule because of cancellations, no-shows and last-minute rescheduled appointments. You could also try implementing a "no show" policy to reduce no-show appointments, thus diminishing scheduling gaps.

3. Track provider/practice patterns. Some providers want to schedule heavily at the beginning of the session, while others like to schedule heavily in the middle, while yet others like to have a consistent flow of patients. When was the last time you reviewed the physician schedule with the providers?

Sit down with your providers now and quarterly to review the current schedule and have them map out what they want their days to be

